

County Investment Pool and Impaired Commercial Paper Assets

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The King County investment pool invests cash reserves for all county agencies and approximately 100 special districts and other public entities such as fire, school, sewer and water districts and other public authorities. It is one of the largest investment pools in the State of Washington with an asset balance of about \$4.3 billion as of December 31, 2007. County agencies comprise 40 percent of the pool and other special districts make up the remaining 60 percent. Assets of the County's General Fund comprise approximately 6 percent of the balance in the pool, on average.

An Executive Finance Committee (EFC) establishes County investment policies and oversees the investment portfolio to ensure that specific investments comply with both those investment policies and Washington State law. The pool is only allowed to invest in certain types of highly-rated securities including certificates of deposit, US treasury obligations, federal agency obligations, municipal obligations, repurchase agreements and commercial paper.

Due to unprecedented volatility in the commercial paper market, especially for asset-backed commercial paper, the County halted all purchases of commercial paper in late August 2007. In early September, 2007, the County commissioned an outside financial consultant, Public Financial Management (PFM), to review the pool's remaining investments in commercial paper and make recommendations going forward. PFM validated the County's overall strategy of halting the purchase of any new commercial paper and recommended holding remaining assets to maturity dates, while monitoring new development in the commercial paper markets.

Using the PFM recommended strategy, the investment pool has substantially reduced its exposure in commercial paper from 25 percent of the portfolio in August 2007 to about 5 percent as of February 2008. During this seven month period, the pool has received full payments on 24 holdings of commercial paper totaling \$831 million. The only commercial paper remaining in the pool is associated with four impaired investments totaling \$207 million (PAR value).

The four impaired commercial paper assets are Cheyne, Mainsail, Rhinebridge and Victoria. Each impaired asset is part of an "enforcement event" in which a trustee takes over the administration of the programs and determines the best way to liquidate assets or restructure the portfolio. Enforcement events are specifically designed to protect the interests of senior creditors, such as the County. There are no financial impacts to report at this time because the impacts cannot be determined until the final outcome of each enforcement event.

Standard & Poor's first rated the County's investment pool in 2005 and granted the pool its highest rating of AA+₊. The pool has continued to earn this highest rating in 2006 and again in 2007. In mid-January 2008, Standard & Poor's took the temporary action to suspend their rating of the pool pending the outcome of enforcement events associated with each impaired investment. The County fully expects to see its AA+₊ rating restored as restructuring proposals are publicly announced and executed on each impaired investment.

For more information contact: **Ken Guy, Finance Director, at 206-263-9254 or email Ken.Guy@kingcounty.gov**